

Congress of the United States
Washington, DC 20510

April 21, 2014

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The Honorable Tom Wheeler
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Mr. Chairman:

We write to raise several significant Alaska-specific concerns regarding the Seventh Order for Reconsideration currently pending before the Commission. We appreciate your attentiveness to the problematic nature of the Quantile Regression Analysis (QRA), and want to thank you for listening to the concerns of the Alaska Delegation, Alaskan rural providers, and many others within the industry about the need to eliminate the QRA. However, as the FCC works through the forthcoming Report & Order, Declaratory Ruling, Order, Memorandum Opinion & Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking in Dockets 10-90 (Connect America Fund) *et al.*, and takes into account the market and technology shifts that continue to evolve, we remain concerned on a number of aspects in which the Commission's policies appear to digress from the universal service goals established by Congress in the Communications Act, some of which we note below. We believe the FCC must address these concerns to maintain but also expand the incomplete telecommunications network in Alaska. Further steps must be taken in short order to fulfill the critical mission and the statutory obligation of providing universal service to our constituents in some of the farthest reaches of our country, including rural Alaska.

As you know, the lack of roads, extreme distances, topographical and climatic challenges in rural Alaska result in extraordinarily high construction and operational costs. To bring the most advanced services possible to our rural areas, the companies providing such services assumed extremely high burdens of debt. The uncertainty caused by the 2011 USF-ICC Transformation Order has caused many setbacks for universal service in Alaska. With your ongoing support we can ensure that Alaskans and their families and communities do not fall further behind in telecommunications services.

Specifically, we would like you to directly address several core issues related to the forthcoming Order:

Connect America Fund Phase II: We have serious concerns with the CAF II funding model, CAM 4.1, produced by the Wireline Competition Bureau. We recognize that modest adjustments have been made over the last several months; however the model is very problematic for Alaska. Alaska has one price cap carrier, Alaska Communications System (ACS). If the model fails to produce sufficient support for meaningful broadband expansion in Alaska, ACS will not be able to meet the requirements imposed on them to accept this CAF II money, and Alaska could miss out on its fair share of the entire \$1.8 billion annual fund, which would be hugely problematic. While other price cap carriers will see a substantial increase in support for the development of broadband capabilities for unserved areas, Alaska will fall farther behind the rest of the nation in access to advanced network capabilities.

To avoid this potential loss, we urge the Commission to override the Bureau's model and base Phase II CAF support for Alaska on Alaska-specific costs (not national average costs) for deploying broadband in Alaska, moving off-road locations over to the Remote Areas fund, where they are a better fit. As we have mentioned in the past, the costs of maintaining and expanding middle-mile connections in Alaska are extremely high. To meet the FCC's goal of bringing comparable levels of broadband capabilities to all Americans at affordable rates, we request more be done to assist and create incentives for companies to build out and develop telecommunication networks capable of delivering broadband services to rural Alaskans at comparable and affordable prices. Alternatively, if the Commission declines to allocate additional support to Alaska, offering ACS the option of continuing to receive frozen CAF I support on a reasonable basis that does not impose significant new burdens or restrict eligible areas is a potential substitute.

Establishing an Alaska Wireless Fund in Mobility II: We agree with Alaska Telephone Association's desire for the FCC to establish an Alaska Wireless fund of \$105 million for 5 years, and ask the Commission to seek comments on such a proposal as a part of the upcoming Further Notice of Proposed Rulemaking. We support having this proposal in the notice at the very least to give time for policy discussions to continue on how to keep Alaska wireless deployment and upgrades on track with the rest of the nation as the Mobility Fund II and Tribal Mobility II proceedings move forward. The current Alaska CETC support should remain stable to allow for wireless service to expand and necessary upgrades to roll out to the most rural areas the State.

Safety Net Additive: It is our understanding that the forthcoming Order will reinstate Safety Net Additive (SNA) for carriers impacted by the previous Chairman's decision to phase out SNA. To cover the needs of isolated, rural carriers such as Ketchikan Public Utilities (KPU), we urge the Commission to maximize this modification by extending this support to all carriers that had previously qualified for SNA such as KPU. KPU is a local exchange carrier owned by the City of Ketchikan. Ketchikan is an insular and remote island in Southeast Alaska serving tribal lands and can only be reached by air or by sea. The total amount of SNA that KPU would receive after this correction is approximately \$600,000, one-half of SNA that was phased out in 2012, and 100 percent of SNA that was eliminated in 2013 and 2014. The FCC should provide that fix to all affected carriers.

Rate Floor Hike: The FCC is proposing that the current rate floor of \$14 (plus state fees) for rural customers be raised to the average urban rate; currently \$20.46. This represents a 46 percent increase. Companies failing to raise rates to that level will accept a dollar-for-dollar reduction in their high-cost support. Section 254 of the Communications Act requires rates to be affordable and urban and rural rates comparable. As incomes and disposable income in urban and rural areas are not identical, neither should that be the expectation of telecommunications rates. We request that the FCC freeze the rate floor for rural areas at \$14 and reexamine this proposed policy.

Your quick action is critical. We hope and expect that your timely action will prevent the disruption of the forward momentum of building a nationwide telecommunications network.

We look forward to continuing to work with you and welcome you to visit Alaska at your earliest convenience to see firsthand the unique challenges we face and to work with us on solutions. You may contact Andrea Sanders in Senator Begich's office at 202-224-3004, Peter Lewis in Senator Murkowski's office at 202-224-6665, and Jason Suslavich in Congressman Young's office at 202-225-5765 for further details.

Sincerely,


Senator Mark Begich
Senator Lisa Murkowski
Congressman Don Young

FCC Chairman Wheeler

April 21, 2014

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CC: Commissioner Clyburn
Commissioner Rosenworcel
Commissioner Pai
Commissioner O'Rielly



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

June 16, 2014

The Honorable Mark Begich
United States Senate
111 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Begich:

Thank you for your letter expressing views about the development of the forward looking cost model to determine ongoing universal service support to areas served by price cap carriers, known as Connect America Fund (CAF) Phase II. I understand your concerns about the impact of the universal service fund (USF) reforms on carriers serving Alaska given the unique challenges of expanding broadband infrastructure in your state. Your letter also will be included in the record of the proceeding.

On April 22, 2014, after conducting an open, transparent, and deliberative process to adopt a cost model, the Commission's Wireline Competition Bureau released an *Order* adopting the cost model platform. Throughout this process, the Bureau solicited feedback on model design and inputs through Public Notices and a "virtual workshop," made available model documentation and illustrative results multiple times, and made several presentations regarding the model and CAF Phase II implementation. The Bureau also released multiple working versions of the proposed forward-looking cost model, with each successive version containing refinements and improvements over the prior version.

A number of outside parties, including Alaska Communications System (ACS), actively participated in the model development process. The information provided in the carrier's numerous filings was given full consideration as the cost model was developed. Bureau staff also met extensively with representatives of ACS and responded to the carrier's concerns by incorporating additional inputs to the model to take into account the unique challenges of serving Alaska, such as: allowing for buried plant to be placed in conduit systems in non-contiguous areas to provide additional protection from harsh conditions; modifying the methodology for determining terrain in non-contiguous areas; amending the cost and investment associated with undersea cables; and classifying ACS as a small carrier for purposes of calculating its operating expenses.

The Bureau's *Order* also provided carriers serving non-contiguous areas, such as Alaska, with the option of continuing to receive frozen high-cost support rather than model-based support. In addition, as part of a *Further Notice of Proposed Rulemaking (CAF Phase II FNPRM)* the Commission adopted on April 23, 2014, we are seeking comment on what public interest obligations should attach to the acceptance of those funds. We look forward to hearing from interested parties as we continue to move forward on the implementation of the CAF.

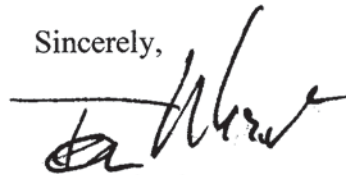
Because there has been rapid private sector expansion of mobile broadband service since 2011, the Commission is exploring whether to retarget Mobility Fund Phase II support to ensure best possible use of the funds and the preservation of mobile voice and broadband service in areas that otherwise would not have such service through marketplace forces. The *CAF Phase II FNPRM* adopted in April specifically seeks comment on measures to provide stability regarding the amount of competitive eligible telecommunications carriers support for providers serving remote Alaska, and asks whether to preserve the existing amount of Mobility Fund Phase II budget for Tribal lands throughout the nation, including those in Alaska.

In the 2011 *USF/ICC Transformation Order*, the Commission eliminated and phased out safety net additive support (SNA) because the majority of incumbent carriers qualified for SNA due to line loss rather than additional network investment. The recent *Seventh Order on Reconsideration* permits carriers that would have qualified for SNA based on increased investment in 2010 or 2011 to receive such support. However, the Commission declined to extend the phase down of SNA support for carriers that had previously received SNA support due to line loss, such as Ketchikan Public Utilities.

With respect to your concerns on the rate floor, while the Commission's rules do not require carriers to raise their local rates, we recognized concerns over potential rate increases and possible difficulties some carriers may experience in making any rate adjustments at the state level in a short period of time. To address these concerns, the Commission *Order* adopted in April implements a multi-year phase-in for any potential universal service support reductions associated with the rate floor. The Commission delayed support reductions stemming from the new rate floor until January 2015. Between January and July 2016, universal service support reductions will only occur for those lines with rates below \$16. Any future support reductions associated with the rate floor (which will be updated annually) will be phased in gradually through 2018.

I appreciate your interest in these matters. Please let me know if I can be of any further assistance.

Sincerely,



Tom Wheeler



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

June 16, 2014

The Honorable Lisa Murkowski
United States Senate
709 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Murkowski:

Thank you for your letter expressing views about the development of the forward looking cost model to determine ongoing universal service support to areas served by price cap carriers, known as Connect America Fund (CAF) Phase II. I understand your concerns about the impact of the universal service fund (USF) reforms on carriers serving Alaska given the unique challenges of expanding broadband infrastructure in your state. Your letter also will be included in the record of the proceeding.

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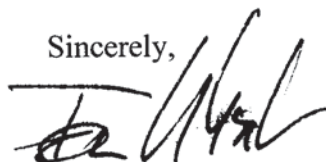
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I appreciate your interest in these matters. Please let me know if I can be of any further assistance.

Sincerely,

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Tom Wheeler



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

June 16, 2014

The Honorable Don Young
U.S. House of Representatives
2314 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Young:

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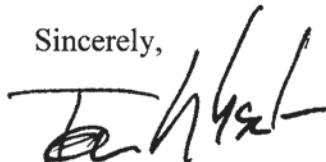
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